

Sacramento Industrial

SECOND QUARTER 2006

QUICK STATS

	Current	Yr.	Qtr.
Vacancy	9.1%	↓	↑
Lease Rates	\$0.34-WHSE \$0.76-R&D	↑	↑
Net Absorption*	493,371 sf	↑	↓
Construction	1,305,928 sf	↑	↑

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

HOT TOPICS

- Within the immediate Sacramento area, the vacancy rate rose from 7.4% to 7.6%. The Greater Sacramento Area, along with the McClellan Park and Auburn/Newcastle submarkets, combined to bring the overall market to a 9.1% vacancy rate.
- During the second quarter of 2006, 24 buildings greater than 4,000 square feet were completed totaling 494,893 square feet, while an additional 86 are still under construction.
- Significant industrial transactions in the Sacramento market for the quarter included: Sacramento Regional Transit leased 220,800 SF at 3701 Dudley Boulevard, McClellan Park. JC Penny leased ±125,000 SF at 2031 Idzorek Street, McClellan Park. Yolo Ice and Creamery purchased 167,800 SF at 700 Santa Anita Drive, Woodland.

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MARKET OVERVIEW

The second quarter marks the sixteenth consecutive quarter of positive absorption for the Sacramento area industrial market. The vacancy rate remained steady at 9.1%. Nearly 500,000 square feet were absorbed in the second quarter 2006, representing a decrease from the robust absorption in the first quarter (1,261,584 SF). New construction remains steady with over 1.3 million square feet of activity during the second quarter. These signs point to a strong, well balanced industrial market.

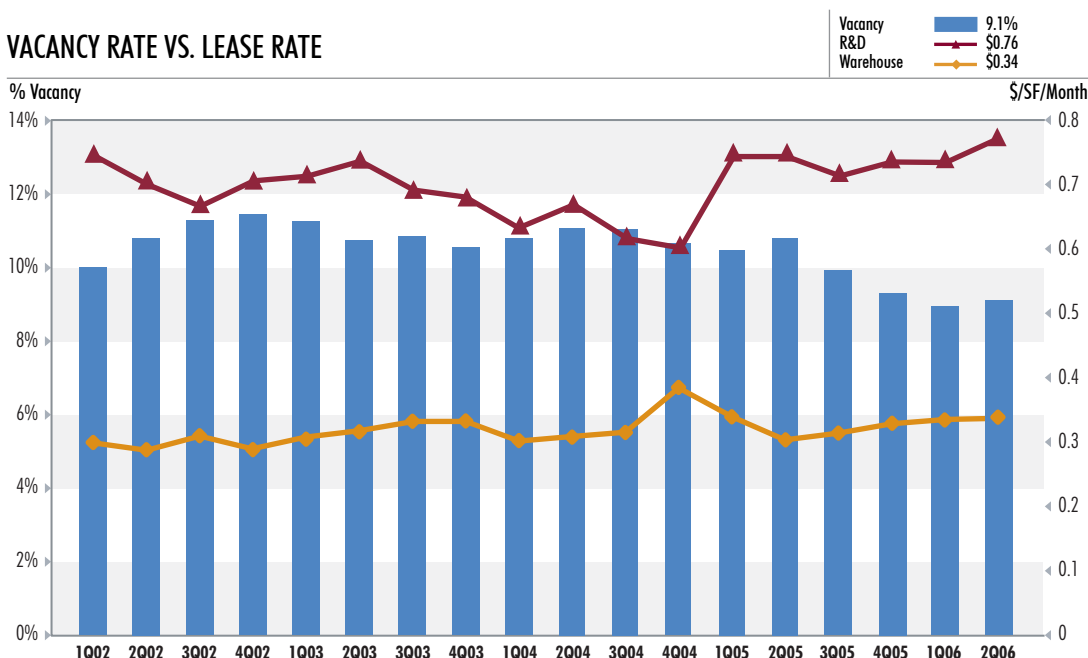
Continuing the trend in 2006, leasing activity outperformed building sales on a square foot basis almost three to one. This increased demand in leasing, coupled with the shrinking of desirable inventory has increased the lease rates for both Warehouse and Flex/R&D properties to their highest levels in five years. Although the second quarter net absorption was positive, the vacancy rate ticked slightly upwards to 9.1% compared to the first quarter's 9.0%. Much of this can be attributed to the demand for industrial space being met by new construction in the market.

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The 500,000 square feet of absorption during the second quarter represents a drop when compared to the last three quarters. We have experienced this phenomenon over the last three years in that the second quarter has had the lowest amount of absorption for the year. Although net absorption decreased, positive gross absorption continued to be strong at over 2.2 million square feet in the second quarter, only slightly less than last quarter's 2.3 million square feet. Similar to the first quarter of 2006, the second quarter's largest absorption came from significant activity in building leases less than 50,000 SF, where close to 1 million square feet was absorbed. Building leases over 50,000 square feet added over 500,000 gross square feet of absorption, with much of that coming from large leases at McClellan Park.

The Sacramento industrial market now totals over 163 million square feet due to the completion of approximately 495,000 square feet of new construction. There is currently 1.3 million square feet under construction with the highest activity in the Northgate/Natomas, I-80/Roseville Road, El Dorado and Roseville/Rocklin submarkets.

VACANCY RATE VS. LEASE RATE



Area	Submarket	Rentable Sq. Ft.	Vacancy Sq. Ft.	Vacancy Rate	2Q Net Absorption	YTD Net Absorption	2Q Under Construction
69	Northgate / Natomas	14,251,582	1,633,326	11.5%	6,073	182,352	437,555
70	Richards Boulevard	6,035,534	226,133	3.7%	31,457	16,633	0
71 / 72	Downtown / Midtown / East Sac	5,992,549	92,318	1.5%	(4,816)	(63,434)	0
73	West Sacramento	17,845,103	1,105,808	6.2%	112,284	252,325	0
74	South Sacramento	5,010,122	39,432	0.8%	(25,500)	(15,840)	0
75	Elk Grove / Laguna / Galt	5,952,731	740,314	12.4%	10,988	87,381	59,400
76	Power Inn Area	26,124,807	2,370,444	9.1%	(122,753)	274,862	147,650
77	Northeast Sacramento	7,259,179	335,205	4.6%	(36,849)	14,932	0
78	Rancho Cordova / Hwy 50	17,554,951	977,753	5.6%	(63,739)	156,953	29,000
79/83	Roseville / Rocklin / Lincoln	18,608,268	2,036,452	10.9%	39,244	170,591	330,115
80	I-80/Roseville Road	9,587,347	443,186	4.6%	(39,034)	(21,189)	102,661
81 / 85	Woodland / Davis	16,315,394	1,679,714	10.3%	178,693	148,880	0
88 / 89	Folsom / El Dorado Hills	3,865,323	104,352	2.7%	17,088	21,021	199,547
Greater Sacramento		154,402,890	11,784,437	7.6%	103,136	1,225,467	1,305,928
91	McClellan Park	6,039,528	2,758,537	45.7%	390,235	500,860	0
90	Auburn / Newcastle	2,862,248	238,906	8.3%	0	(108,916)	0
Outlying Area Total		8,901,776	2,997,443	33.7%	390,235	391,944	0
Market Total		163,304,666	14,781,880	9.1%	493,371	1,617,411	1,305,928

NOTE: Only industrial properties over 4,000 square feet, excluding government-owned buildings and medical buildings, are included in this survey.

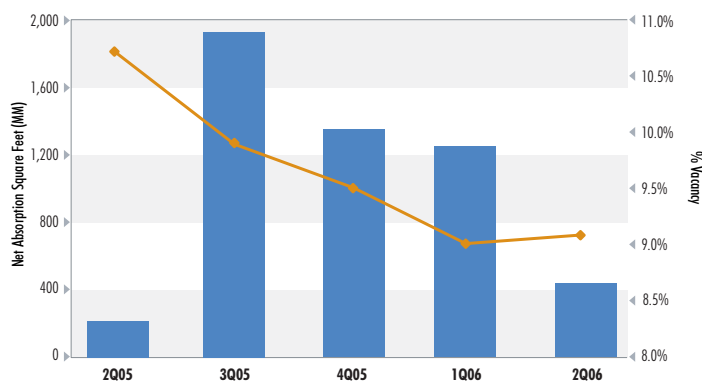
MARKET OUTLOOK

The second quarter 2006 marks the fourth consecutive quarter the vacancy rate was below 10%. The market continues to reflect a pattern of growth, even though the vacancy rate for the greater Sacramento area ticked slightly upwards to 7.6%, and the overall vacancy rate increased one-tenth of a percent to 9.1%. The second quarter witnessed a decrease in the number of transactions larger than 100,000 square feet compared to the first quarter 2006 and the fourth quarter 2005. This coupled with the completion of nearly 500,000 square feet of construction contributed to lower net absorption for the second quarter.

The Sacramento area industrial market continues to move in a positive direction in 2006. Year to date net absorption is at 1.617 million square feet, while the vacancy rate remains below 10%. Leasing activity continued to outpace the sale of owner/user buildings, continuing the trend from 2005 and early 2006. Even with the shortage of developable industrial land, new construction remains strong at over 1.3 million square feet currently under construction in the Sacramento Area. As the market moves forward into the second half of 2006, we expect to see absorption numbers increase and the vacancy rate decrease.

VACANCY/NET ABSORPTION

Vacancy 9.1%
Net Absorption 493,371 SF

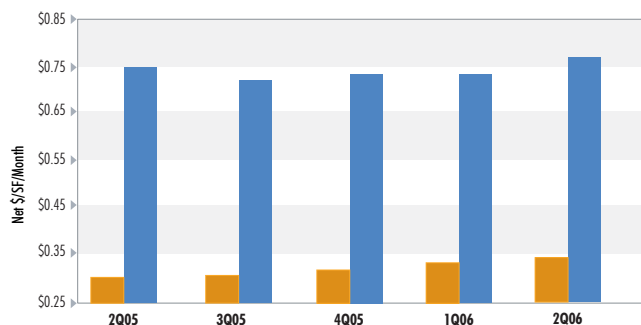


Within the immediate Sacramento area, the vacancy rate rose from 7.4% to 7.6%. The Greater Sacramento Area, along with the McClellan Park and Auburn/Newcastle submarkets, combined to bring the overall market to a 9.1% vacancy rate. This marks the sixth consecutive year the vacancy remained stable and the fourth consecutive quarter the vacancy rate was under 10%. The few submarkets that posted negative net absorption this quarter can attribute their decrease to a few large buildings becoming vacant, combined with the completion of new speculative projects that have yet to be leased. McClellan Park saw a significant increase in absorption during the first quarter ($\pm 390,235$ SF) as well as the Woodland Submarket ($\pm 178,693$ SF). New available space this quarter includes the following: 51 Main Avenue with 55,830 SF (Northgate/Natomas), 8151 Fruitridge Road with 45,800 SF (Power Inn), 8390 Gerber Road with 37,200 SF (Power Inn) and 2590 Mercantile Drive with 28,830 SF (Rancho Cordova).

Significant industrial transactions in the Sacramento market for the quarter included: Sacramento Regional Transit leased 220,800 SF at 3701 Dudley Boulevard, McClellan Park. JC Penny leased $\pm 125,000$ SF at 2031 Idzorek Street, McClellan Park. Yolo Ice and Creamery purchased 167,800 SF at 700 Santa Anita Drive, Woodland.

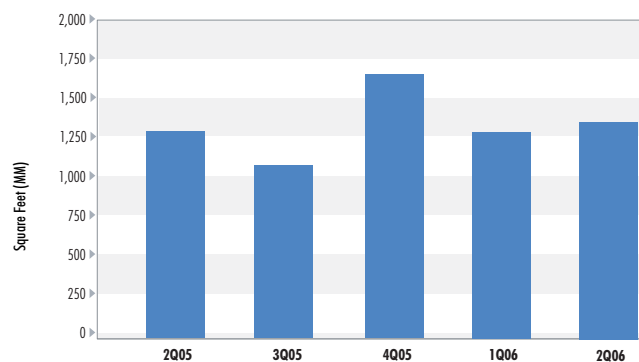
AVERAGE ASKING LEASE RATES

R&D \$0.76
Warehouse \$0.34



Average asking lease rates for distribution properties, above 50,000 square feet, are approximately \$0.34 per square foot, NNN, up from \$0.33 in the first quarter. Average lease rates for flex/R&D properties rose from \$0.74 last quarter to \$0.76 per square foot NNN in the second quarter. Multi-tenant warehouse spaces remained unchanged from the first quarter 2006 at an average of \$0.34 per square foot, NNN.

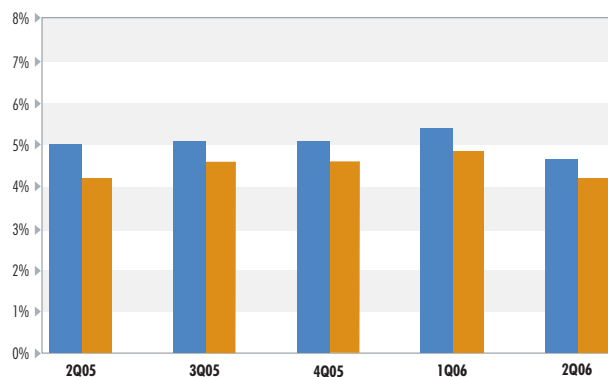
CONSTRUCTION ACTIVITY



There is currently 1,305,928 square feet under construction in the market. During the second quarter of 2006, 24 buildings greater than 4,000 square feet were completed totaling 494,893 square feet, while an additional 86 are still under construction. Current areas with high levels of construction include: Northgate/Natomas, Roseville/Rocklin/Lincoln, I-80/Roseville Road, El Dorado Hills and Power Inn Area.

UNEMPLOYMENT RATE

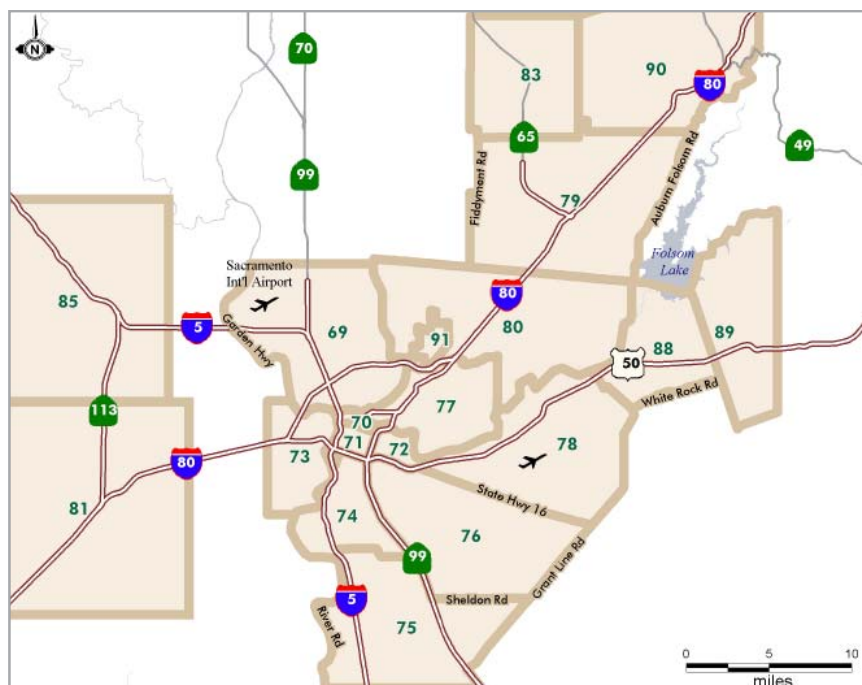
California
Sacramento MSA



In May 2006, the California Employment Development Department reported a 4.2 percent unemployment rate for the Sacramento Area, which fell below last year's estimate of 4.5 percent and is down from last quarter's number of 4.8 percent. The current unemployment rate for California is 4.6 percent. Across counties, unemployment rates are as follows: El Dorado County 4.2 percent, Placer County 3.6 percent, Sacramento County 4.3 percent, and 4.3 percent in Yolo County.

During last year the total job count increased by 2.4 percent, with a total of 21,000 jobs added to the Sacramento MSA. Nearly all industries contributed to the positive gain of employment with the largest impact of 5,400 additional jobs in professional and business services. While the nation is experiencing an overall decline in manufacturing, the Sacramento MSA tallied an additional 2,200 jobs in this sector. Also of note is the significant contribution from both the government and retail industries, adding 3,600 and 3,200 respectively.

LOCATION / MARKET AREA	MARKET NRA	MARKET SHARE
69 NATOMAS/NORTHGATE	14.3 million square feet	8.7%
70 RICHARDS BOULEVARD	6.0 million square feet	3.7%
71/72 DOWN/MIDTOWN/EAST SACRAMENTO	6.0 million square feet	3.7%
73 WEST SACRAMENTO	17.8 million square feet	10.9%
74 SOUTH SACRAMENTO	5.0 million square feet	3.1%
75 ELK GROVE/LAGUNA/GALT	6.0 million square feet	3.6%
76 POWER INN AREA	26.1 million square feet	16.0%
77 NORTHEAST SACRAMENTO	7.3 million square feet	4.4%
78 RANCHO CORDOVA/HIGHWAY 50	17.6 million square feet	10.7%
79/83 ROSEVILLE/ROCKLIN/LINCOLN	18.6 million square feet	11.4%
80 I-80/ROSEVILLE ROAD	9.6 million square feet	5.9%
91 MCCLELLAN PARK	6.0 million square feet	3.7%
81/85 WOODLAND/DAVIS	16.3 million square feet	10.0%
88/89 FOLSOM/EL DORADO HILLS	3.9 million square feet	2.4%
90 AUBURN/NEWCASTLE	2.9 million square feet	1.8%



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